State of California

EMPLOYMENT TRAINING PANEL

M e m o r a n d u m

To: Panel Members Date: January 26, 2007

From: Diana Torres, Manager Analyst: C. Robinson

Subject: One-Step Agreement for **ELGAR ELECTRONICS CORPORATION**

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition
- Legislative Priorities: Promotion of California's Manufacturing Workforce Moving To A High Performance Workplace Stimulating Exports/Imports
- Type of Industry: Manufacturing
- Repeat Contractor: Yes
- Contractor's Full-Time Employees
  - *Worldwide:* 297
  - *In California*: 297
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: $213,840
- Substantial Contribution: $64,260
- Total ETP Funding: $149,580
- Total In-kind Contribution: $228,000
  - *Trainee Wages Paid During Training:* $228,000
  - *Other Contributions:* $0
- Reimbursement Method: Fixed-Fee
- County(ies) Served: San Diego

INTRODUCTION:

Founded in 1965, Elgar Electronics Corporation (Elgar) manufactures programmable power sources and related power products sold under the Elgar or Sorensen brands. The Company's products are used by the aerospace, medical, telecom, semiconductor, and defense industries. Elgar's products include AC power sources, programmable DC power systems/loads, solar array simulators, and integrated rack power subsystem services for use in the automatic test equipment market.

Elgar employs 297 full time employees in its San Diego facility, the site of the proposed ETP-funded training. The Company qualifies for standard ETP funding under Title 22 California Code of Regulations (CCR), Section 4416(i), as an industrially-classified manufacturer retraining current employees.

The proposed training plan represents Elgar's third funded ETP-project, the second within the last five years. Elgar proposes to retrain 270 of its employees in the latest technology for this industry and the skills needed to meet its customer's demands for high quality products and service.

MEETING ETP GOALS AND OBJECTIVES:

Elgar proposes training that will further the following ETP goals and objectives:

1) Promote the retention of California's manufacturing workforce.

2) Enhance the skills of its frontline workers to prepare them for employment in a high performance workplace.

3) Stimulate exports in industries threatened by out-of-state competition.

TRAINING PLAN TABLE:

Grp/Trainee Type	Types Of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 90 Days
Job Number 1 Retrainee	Menu: Advanced Technology Computer Skills Continuous Improvement Manufacturing Skills	270	24 - 200	-0-	$554	*$12.89 - $62.87

Occupation

Managers/Supervisors
Engineering Staff
Information Technology Staff
Purchasing Staff
Finance Staff
Planners
Administrative Staff
Sales Staff
Material Support Staff
Production Staff

Health Benefits Used To Meet ETP Minimum Wage:

*Health Benefits of at least $1.94 per hour may be applied to the base wage in order to meet the ETP minimum hourly wage of $12.89 for San Diego County.

Turnover Rate

16%

% Of Mgrs & Supervisors To Be Trained:

15%

Other Employee Benefits:

In addition to health, dental and vision, Elgar offers paid sick leave, vacation, 401K, and Tuition Reimbursement.

COMMENTS / ISSUES:

- ***Substantial Contribution***

  Elgar's facility in San Diego previously earned more than $250,000 from Panel funding in two prior ETP Agreements within the past five years. Therefore, Elgar is subject to a substantial contribution and will receive only 70% of the projected training costs.

- ***Frontline Workers***

  Of the 270 retrainees, 229 (85 percent) meet the Panel definition of frontline workers under Title 22 CCR, Section 4400(ee). The remaining 41 retrainees are managers or supervisors (15 percent) none of whom set company policy.

- ***Production During Training***

  The Company agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

RECOMMENDATION:

Staff recommends that the Panel approve the Agreement based on Elgar's need to expand its training efforts across all departments to remain competitive, increase business, create new products, meet changing customer needs, and establish a high performance workplace with improved company operating procedures.

NARRATIVE:

According to company representatives, Elgar has earned its reputation for quality and reliability by solving complex semiconductor, telecommunication, and measurement/control power needs for its customers. The worldwide business downturn after the events of 2001 created new challenges for the Company in its efforts to retain its position as a leading manufacturer of programmable power sources. Subsequently, new product offerings were slow to be introduced, profit margins were slowly shrinking, and Elgar was being challenged by foreign companies that offered more competitive market strategies to lure new business.

To address the aforementioned issues, Elgar decided to transition its existing internal structure into a more efficient business model and increase new product development efforts. For example, Elgar developed its first digital loop control product, which will be introduced in January 2007, and plans to develop and market even more technologically innovative products. These products will include digital interfaces, internal product "supervisory" tools, and diagnostic capabilities housed within power supply testing systems which will allow customers to modify or exchange software in products rather than replace major hardware components. These plans

NARRATIVE: (continued)

require a major cultural change in its infrastructure of systems, procedures, and product development processes. The Company's goals include developing market growth by using different methods than those being used by its industry competitors and expansion of its product line by offering the latest digital technologies available in the power electronics industry.

Elgar began changing its business model two years ago. However, the Company experienced a key executive leadership change in April 2005. As a result, several topics in Continuous Improvement and Manufacturing Skills could not be delivered to many of the company's engineering and manufacturing employees within the term of the last Agreement. The management transition is now complete and Elgar's leadership team is supportive of the company's newly established business model/market expansion strategies and current training needs.

Elgar developed its first digital loop control product, which will be introduced in January 2007, and plans to develop and market even more technologically innovative products. These products will include digital interfaces, internal product "supervisory" tools, and diagnostic capabilities housed within power supply testing systems which will allow customers to modify or exchange software in products rather than replace major hardware components.

Advanced Technology (AT)

In 2006, Elgar invested over $230,000 to reconfigure its development lab with new Halt Chamber, humidity/temperature control, liquid nitrogen system equipment, and purchase new engineering software tools including Altera Quantis, IcePaC, compilers, and editing tools, which did not include any related training. This new software will require its engineers to be proficient in various AT skills. Very High Speed Design Language (VDHL) training will allow Elgar to use highly technical and complex processes to improve design efficiency, design uniformity, and product performance. Altera Quartus Design Tool training will allow engineering staff to use the latest applications to design technologically advanced programmable power products. Embedded Linux, Digital Controls and Digital Technology courses will allow Elgar to understand different operating systems in digital technology using embedded code, high frequency/low noise, and design for electro magnetic interference compliance.

Elgar is requesting the AT fixed-fee reimbursement rate of $26 per hour for advanced training topics to be provided to approximately 71 engineering staff. Up to 168 hours of AT will be delivered to Elgar's engineering staff to give them the tools necessary to design products following a very strict product development process. Company representatives state that the training will be delivered by in-house trainers or vendors at a hourly cost in excess of $26 and will average $48.29 per trainer hour. Class size will be limited to between five and 10 students based upon the complexity of the subject matter. Company representatives state that the excess costs of this training above the ETP fixed rate will be paid at the company's expense.

Manufacturing Skills

During 2006, Elgar invested $590,000 for a wave solder machine, auto insertion machine, and several automatic test systems that will ultimately reduce manufacturing costs to help the company remain competitive. Training, which was not included in the cost of this equipment, is needed for production and material support staff to learn how to use this equipment in the most

NARRATIVE: (continued)

efficient manner. Lean Manufacturing Techniques training for these employees will allow them to identify the sources of waste and opportunities for improvement of the company's manufacturing processes.

Computer Skills

Building on the Computer Skills tools acquired over the past two years, the proposed training plan includes additional topics including Tolerance Analysis, Advanced P-CAD Techniques, and Advanced Solid Works. This training will help Elgar engineering staff become more proficient in its efforts to design/develop more technologically advanced products.

Elgar's goal of implementing new market strategies for growth will be supported by improved management of sales and customer service. The company is in the process of purchasing a Customer Relationship Management (CRM) system at a cost of $75,000, which did not include any related training. The CRM system will manage the data required to predict sales and track customer information. It will link engineering and manufacturing processes with the marketing and sales of Elgar's products. Proposed training in CRM for engineering, sales, and administrative staff will allow them to understand how the system interfaces with these departments. Training will allow them to support internal/external customer communication and enhance sales performance by tracking marketing efforts.

Continuous Improvement

In Elgar's last ETP Agreement, some Continuous Improvement concepts were initiated throughout the company to support the company's "Culture for Success" initiative. These concepts focused mainly on identification of internal processes that needed improvement. The proposed training in Continuous Improvement topics including Problem Solving, Leadership, Communication Skills, Teamwork, and Advanced Process Mapping will take employees to the next level. Referred to as "Culture for Success Evolved", all employees will receive Continuous Improvement training to implement the previously identified processes needing improvement from the "Culture for Success" imitative. Training will allow Elgar employees to systematically refine business processes and build a more efficient business model.

Commitment to Training

State law requires that ETP funds be used to supplement, rather than displace, funds available through existing programs conducted by employers and government-funded programs.

Although Elgar does not have a formal training budget, the company expends approximately $30,000 annually on tuition reimbursement, informal on-the-job training, new employee orientation, basic product knowledge, and general safety training. This training is conducted on an as needed basis and Elgar will continue to deliver it at the company's expense.

Elgar's representatives state that proposed training has never been delivered in the past, or was not delivered to some employees due to a company management change as discussed

NARRATIVE: (continued)

previously in the narrative, and does not displace its current informally delivered training. ETP funding will allow the company to offer a formal training program for the first time. Without ETP funding, Elgar does not have the necessary resources to deliver such comprehensive training to its employees in a relatively short timeframe. Upon completion of ETP funded training, the company plans to continue training in many of these areas at its own expense.

SUBCONTRACTORS:

None

THIRD PARTY SERVICES:

To be determined.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

PRIOR PROJECTS						
Agreement Number	**Location (City)**	**Term**	**Contract Amount**	**Amount Earned**	***Planned* In-kind Contribution**	***Reported* In-kind Contribution**
ET00-0309	San Diego	05/08/00 – 05/07/02	$282,254	$171,984	*N/A	*N/A
ET05-0145	San Diego	09/01/04 – 08/31/06	$324,142	**$86,866	$394,450	***$106,501

***** At the time of approval and implementation of this Agreement, ETP policy did not require an employer contribution.

**Elgar states that the poor performance for this Agreement resulted from a change in executive leadership in 2005. As a result, a change in focus altered the training scheduled for many engineering and manufacturing staff. Therefore, some retrainees from this facility did not complete training and the 90-day retention period.

*** The adjusted in-kind contribution based on actual earnings is *105,000.

Company representatives state that the training in the proposed Agreement has the full support of Elgar's management team. The team has mandated that the training is a priority and anticipates improved performance for the proposed Agreement.

Elgar Electronics Corporation

MENU CURRICULUM

Class Lab Hours
(24-200) Trainees will receive any of the following:

MANUFACTURING SKILLS

- Lean Concepts (manufacturing)
- Electro-Mechanical Assembly Processes & Equipment
- Production Testing Equipment Processes & Equipment
- Material Control and Handling Processes & Equipment

COMPUTER SKILLS

- Tolerance Analysis
- Advanced P-Cad Techniques
- Advanced Solid Works Techniques
- Customer Relationship Management (CRM) System

CONTINUOUS IMPROVEMENT

- Lean Concepts (non-manufacturing)
- Advanced Process Mapping/Problem Solving
- Leadership Skills
- Communication Skills
- Teamwork Skills

Class Lab Hours
(0-168) Trainees will receive any of the following:

ADVANCED TECHNOLOGY

- Pspice Advanced Analysis Training
- Practical Very High Speed Design Language (VDHL) Design
- Altera Quartus Design Tool Techniques
- Embedded Linux Training
- Digital Controls for Power Electronics
- Technology Advances in Power Electronics

Comment: The parties agree that the training identified in this Curriculum may be revised from time-to-time during the term of this Agreement at the request of Contractor and with the prior written approval of ETP. (See also Section 12 in this Agreement.)